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UNCLAS SECTION 01 OF 02 PRETORIA 004936

SIPDIS

DEPT FOR AF/EPS/DKRZYWDA AND AF/S/TCRAIG AND KGAITHER
COMMERCE FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
TREASURY FOR GCHRISTOPULOS, LSTURM, AND AJEWEL
DEPT PASS USTR FOR PCOLEMAN

SENSITIVE

E.O. 12958: N/A

TAGS: [ECPS](#) [ETRD](#) [ECON](#) [EINV](#) [SF](#)

SUBJECT: SBC TO SELL TELKOM SHARES, EXIT SOUTH AFRICA

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[11.](#) (SBU) SUMMARY. U.S. telecommunications firm SBC Communications and Telkom Malaysia announced November 8 that they would sell their remaining interest in Telkom SA and exit South Africa. An empowerment consortium led by senior ANC officials and influential empowerment figures (Andile Ngcaba, Smuts Ngonyama, and Gloria Serobe) will acquire the shares no later than November 15 pending agreement of a purchase price. A source close to the deal said that Ngcaba, former Department of Communications Director-General, is conspiring to become CEO of Telkom. While industry analysts say that the deal will raise Telkom's black economic empowerment (BEE) profile, critics complain that it will benefit only a small, black elite. END SUMMARY.

[12.](#) (U) U.S. telecommunications firm SBC Communications and Telkom Malaysia announced November 8 that they would sell their remaining interest in Telkom SA, ending months of speculation. SBC and Telkom Malaysia hold 15.1 percent of Telkom SA through their Thintana Communications joint venture. SBC controls 60 percent of Thintana while Telkom Malaysia owns 40 percent.

[13.](#) (SBU) In June, Thintana reduced its Telkom holdings from 30 to 15.1 percent and agreed to retain its remaining stake until the November quarterly reports. SBC recouped \$543 million from the June sale, almost 72 percent of its investment of \$756.6 million in 1997. Privately, SBC officials told Econoff that they were "very pleased" with the results of the June sale and said it bode well for SBC's eventual disinvestment from Telkom. They also indicated at the time that corporate policy to reduce overseas holdings would likely lead to SBC's complete divestment from South Africa this year.

[14.](#) (SBU) Since that time, Thintana has been quietly negotiating with a consortium of empowerment groups led by senior ANC officials and influential empowerment figures. A group shareholder told Econoff that the consortium dubbed "Project Elephant" consists of a group known as "Project Lion" led by former Department of Communications Director-General Andile Ngcaba and another group of investors called "Project Buffalo" headed by ANC spokesman Smuts Ngonyama and ANC Women's League member Gloria Serobe.

[15.](#) (SBU) Consortium and SBC officials were in Dallas negotiating terms of the deal when the Minister of Communications announced on September 2 that the industry would be liberalized in February 2005. Telkom stock prices tumbled to R72 (NYSE \$47.80). Anticipating that Telkom prices would rise again, the consortium shareholder said that he then encouraged consortium officials to lock in a purchase price at R75 per share, but was rebuffed. The consortium now faces stock prices of more than R93 (NYSE \$56.74). The sale is contingent upon the consortium finalizing a purchase price by November 15. Otherwise, Thintana will sell its shares on the open market beginning November 16.

[16.](#) (SBU) Under terms of the deal, the consortium will acquire the special class B ordinary share in Telkom held by Thintana which will give it certain rights as a strategic equity investor, including potential seats on the Board of Directors and senior executive positions. Although Telkom has the right of first refusal on the shares, a Department of Communications source told Econoff that it is a virtual surety that Government will not exercise that right. A source close to the deal told Econoff that Andile Ngcaba is conspiring to lead Telkom and has a strategy in place to use this acquisition as a springboard to replace current Telkom CEO Sizwe Nxasana.

[17.](#) (U) While industry analysts say that the deal will raise Telkom's black economic empowerment (BEE) profile, critics complain that it will benefit only a small, black elite. A

front-page editorial in Business Day's November 10 edition criticized the deal, calling it "an insult to the poor." It slammed President Mbeki, Finance Minister Manuel and Public Enterprises Minister Erwin for not seizing this opportunity to redistribute the wealth of Telkom to South Africa's poor.

FRAZER